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A HOME-OWNERSHIP PROPOSAL FOR THE BOSTON MODEL CITIES AREA - Vol. I

Prepared by

Housing Innovations, Inc.
50 Franklin Street
Boston, Massachusetts 02110

Telephone - Area 617-426-5266

Prepared for

Model City Administration
City of Boston

September, 1968

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PREFACE AND ACKNOWLEDGEMENTS

As part of the general effort by the Model City Administration in Boston to develop concrete proposals for upgrading the Model Cities Area, Housing Innovations, Inc. was asked to prepare a brief report on the possibilities for home ownership within the Model Cities Area. We were asked to focus on concrete suggestions for the volume production of ownership housing and the maximization of choice for all income levels.

In addition to the normal investigations of administrative and legislative regulations, existing ownership programs, and literature in the field we felt it particularly important to interview the relevant actors which make up the housing industry. Cursory interviews of the users (tenants and home-owners), developers, bankers, and federal agencies were made. Additional studies in the area of actor desires and needs and the inter-relationships among the actors and the regulations governing them are clearly indicated. These studies would provide the MCA with a more sensitive tool, for choosing alternative actions and predicting their results, than we were able to produce for this brief report.

We would like to particularly thank Mr. Charles Field, Mr. Robert Shafer and Mr. Leroy Willis who served as special consultants to this project. The work, comments, and criticism of the following people were also particularly useful: Mr. Roy Beasley, Mr. John Bok, Mr. Christopher Maltas, Mr. George Morrison, Mrs. JoAnn Newman, and Mr. Steven Sparks.

The report would not have been possible without the generous assistance of the following agencies, institutions, and corporations; the regional

representatives of FHA, HAA, URA and Model Cities; the local FHA, the Boston Housing Authority, Boston Redevelopment Authority, and the Tax Assessors; The Development Corporation of America, First Realty Corporation, New England Development Corporation, South End Community Development Corporation, Inter-faith Housing, and Eastern Gas and Fuel; North East Federal Savings and Loan, Boston Federal Savings and Loan, First National Bank, Warren Street Bank Group, the Unity Bank, and the OEO Credit Unions; and the residents of the Model Cities Area, who graciously allowed us to test with them the various ideas proposed herein.

Note: A more detailed version of this report will be found in Volume II.

I. INTRODUCTION

Model Cities Area residents of every income level want and need a drastic increase in ownership housing of all types. Such an increase would surely result in the stabilization of the Area and the building of community pride - but the housing industry has not significantly responded to the demand. Nor will it, unless changes are effected in the industry's controlling regulations, institutions and personnel.

An active and resourceful Model Cities Agency-Model Neighborhood Board (MCA-MNB) can accomplish these changes in a relatively short time - anywhere from six months to three years - and thus establish within the Model Cities Area a growing, healthy industry capable of satisfying local demands.

II. SUMMARY

Objectives

The prime objective of this study is to devise a five-year program of action which will provide ownership housing of every type to all residents of the Model Cities Area. The program must be of sufficient volume to

> satisfy the considerable demand among all segments of the population for ownership housing
>
> and to stabilize and upgrade the area.

These objectives will be met if:

a. ownership housing of every type can be provided for families whose annual income is

$4000 (the modal family income in the Model Cities Area);

b. approximately 70% of the existing absentee-owned structures and 70% of the new construction are converted to resident-ownership (6000 units of rehabilitated housing and 2000 new units). This would mean an increase in the percentage of ownership in the Model Cities Area from the present 45% to between 80% and 85%.

Physical and Social Characteristics

The Boston Model Cities Area includes some 350 city blocks and approximately 20, 000 units of housing and lies some 3 1/2 miles from downtown Boston. The Area's population is predominantly black; 50% of the population have incomes below $5000 and more than 20% of the population receive some form of public assistance.

The housing stock consists primarily of two- and three-family frame dwellings with occasional brick row houses and apartment buildings - the majority badly deteriorated and absentee-owned. There are a few large and several smaller scattered sites in the Area on which new housing might be built.

Housing Market Today

There is a demonstrated demand for ownership housing in the Model Cities Area. Yet the percentage of ownership housing has decreased in recent years. The industry (an interrelated system of government regulations, developers and bankers) has failed to meet the demands because the requirements for ownership housing in the Area cannot be met by the industry as it is presently constituted.

Federal mortgage insurance and subsidy programs

(the existence of which is usually a precondition for obtaining mortgages from conventional sources) are not designed to help low income homeowners. Most federal programs designed to aid low income families apply to renters; conversely, those geared to help homeowners either apply only to moderate and middle income families or else cannot be used in the Model Cities Area because of insufficient mortgage amounts or because they are not applicable to two- and three-family houses.

Large developers capable of producing ownership housing in the required volume have not participated and will not participate in such a program because it is more profitable to produce ownership housing elsewhere or to own and manage housing as absentee landlords. The small, local developers and the non-profit developers who are eager to become involved in such a program may not be able to produce at the desired volume because of their inexperience with the complexities of the development process - particularly those associated with federal mortgage insurance or subsidy programs.

Changing the System

Through the careful manipulation of existing regulations (that is the combination of Federal Housing Administration (FHA) insurance programs with Housing Assistance Administration (HAA) subsidies), ownership housing in certain categories can be provided for some segments of the population (rehabilitated multi-family housing for the poor, new and rehabilitated multi-family housing for families of moderate and middle income). But as long as the situation among developers and bankers does not change, the volume of this type of housing will remain low. The twin objectives of maximum choice for all income levels and volume production can be met only if significant changes in the system are instituted.

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The following changes or innovations are recommended:

1. Alterations in government regulations aimed at ensuring maximum choice at all income levels; for example, making HAA subsidy programs available to homeowners.

2. Alterations in government regulations designed to encourage the participation of developers and bankers, thereby increasing the production of housing; for example, the simplification of FHA and HAA processing for all one- to four-family houses.

3. The creation of new institutions that would produce, or encourage the production of, ownership housing; for example, a training program to instruct local developers in the intricacies of the development process, or a community-owned development corporation that would undertake those necessary functions private developers are unwilling or unable to perform.

4. The creation of new institutions designed to change the market requirements of the Model Cities Area; for example, credit unions and buyers' cooperatives, designed to increase the effectiveness of income spent on housing, or a two- to three-month homeowner training program that would impart to low income families management skills comparable or superior to those of most middle income families.

5. Changes in the administration of government regulations, including the creation of local offices, staffed by local people and eventually under local control. This would ensure agency responsiveness to developers and

owners and simultaneously would give the community control over the housing produced.

Staging

Recommendations are to be implemented in the following manner and in the following time periods:

1. Changes in government administrative regulations will re requested by the MCA-MNB and in most cases should be accomplished within 3 to 6 months.

2. Changes in government legislative regulations will be accomplished either through the creation of a demonstration program under which such changes would be allowed as a test, or through direct amendment to existing legislation. The implementation of the former will generally include a 3- to 6-month study, with an additional 6 months for review and for staffing the program. The latter may require 2 to 3 years of intensive lobbying prior to successful legislative amendment.

3. The creation of new institutions, corporations or agencies will usually be preceeded by consultant studies of 3 to 6 months with an additional 6 months for setting up and staffing. Some institutions, such as locally controlled state-chartered savings banks, or fire and hazard insurance companies, may take two or more years to organize.

When the timetable of MCA-MNB activities is compared with the production of various types of housing for various income levels the following becomes apparent:

a. A significant increase in the availability of

rehabilitated housing for all income groups may be attainable within 6 months, if certain important administrative changes - such as, the waiver of FHA's prohibition against borrowing of downpayments - can be accomplished.

b. Full production of ownership housing, if dependent upon full-scale developer activity, will not take place for at least two years.

c. Since low income ownership of new housing is dependent upon legislative changes, such housing may not be fully available for 3 or more years.

Conclusion

Clearly, all recommendations are subject to political considerations and changes in market conditions which cannot be foreseen at this time. The important areas of concern and the areas for immediate action, however, have been identified, and sufficient information is present to guide the MCA-MNB toward taking reasonable action in the near future.

III. OBJECTIVES

It is the purpose of this study to develop a home ownership program which will make ownership of all types of one- to four-family houses possible for people of all income levels within the Model Cities Area. Families can be divided into 3 principal income groups: low (less than $5000 annual gross income); moderate ($5000-6999 annual gross income); middle ($7000 and over). Home ownership should reach all three groups. Because of the large numbers of low income families who desire to be homeowners, the home ownership program has as a general goal the use of existing tools and the design and use of improved tools to make it possible for these families ($4000 annual gross income) to purchase new or rehabilitated one- to four-family structures, condominium units, or shares in cooperatives - all in the Model Cities Area, with a minimum of (financial and other) difficulty. We strongly recommend that low income persons be able to participate in the program without expending more than 20% of their gross income on total housing costs - heat, gas, electricity, sewer, water, maintenance, debt service, real estate taxes and insurance included.

It is also the purpose of this study to develop a home ownership program of sufficient size and competence to satisfy the unmet demands of the market and to increase substantially the percentage of ownership housing within a 5-year period. In order to accomplish this the consultants project approximately 8000 units of ownership housing, 6000 rehab and 2000 new, over the five-year Model Cities period. Approximately 90% of the rehabilitated units will be isolated 2- and 3-family houses. These must be acquired and rehabilitated. A significant portion of the new housing will be constructed on vacant scattered sites ranging in area from 5000 to 30, 000 square feet.

The basic assumption of the study is that ownership will help significantly to stabilize and improve the Model Cities Area. We further assume that, contrary to current opinion, family earning capacity is not the most important index of the ability to become a good homeowner. Rather, qualities of responsibility, stability, management, and maintenance know-how can be found and developed among people of all income levels; income, therefore, should be no bar to ownership.

IV. NEED FOR OWNERSHIP

For the last two years there has been a widespread feeling among influential portions of the nation that home ownership might provide a solution to the problems of the ghetto. Sparked by such phenomena as the Sternlieb study in Newark and the Percy legislation, home ownership has come to be looked upon as a panacea for the maladies of ghetto living. Although we do not share this rosy view of the healing power of home ownership, there is some good evidence to suggest that a comprehensive attempt to increase the amount of ownership in areas such as Model Cities would help solve ghetto problems.

Those stable subareas within the Model Cities Area where houses are in good condition almost invariably have a percentage of resident-owned structures of 80% or higher. It is clear that for most people the transition from tenant to owner status has meant a change in their attitudes toward their community and their stake in its development. It is also true that areas of Boston which are not deteriorating, comparable in income, age, and housing stock have a higher percentage of ownership than the Model Cities Area.

V. DEMAND FOR OWNERSHIP HOUSING

Throughout the nation there has been a trend among poor people towards more control of their own communities. One expression of this trend has been the Model Neighborhood Board's and the Model Cities Administration's request for a comprehensive program to promote home ownership in the Model Cities Area. The request also stems from the long thwarted desire among the ordinary people of Roxbury to own their own homes - a desire which is part of the general American ideal and one distinct from any particular philosophy of community control.

This desire exists among all groups in the Model Cities Area. A local survey indicated that 75 percent of the families now renting in the Area are interested in ownership. The residents here, like other Americans, prefer single-family detached houses. As already noted, there are few such units in the Area. In addition, vacant land is limited and new construction costs are high, so few such units can be built here in the immediate future. Available data does not examine clearly the locational preference for home ownership: Model Cities Area, Allston, Winchester, etc. But despite this deficiency, informal meetings with potential owners indicate a sufficient demand to own in the area. This will grow as the area improves.

One thing is clear: appallingly little adequate housing has been produced in the Model Cities Area for resident ownership. The next section will analyze, within the existing legislative and administrative framework, reasons for this poor performance record and prospects for the future.

VI. TODAY'S HOUSING MARKET AND ITS INADEQUACIES

There are three principal actors in the housing market: developers, lending institutions, and consumers. In addition, action taken by various governmental bodies often has an impact on the supply of housing.

Each consumer has a set of housing preferences: mode of tenure, location, type of dwelling structure. Developers and lenders are the suppliers for the consumer demand; they must be willing to enter the Model Cities Area housing market.

In general, the developer is profit-motivated. The form of investment and the return he seeks depend upon the particular role he takes and the particular needs of his organization. He may seek his profits from any one or more of the following: (1) preparation, packaging and sale of a concept and its plans; (2) capital appreciation; (3) construction work; (4) installation of his product in the houses (for example, gas stoves); (5) management; (6) tax losses; (7) maximum utilization of his personnel during slack periods. Each developer seeks to maximize his return; with this motivation, various submarkets compete with one another for the limited resources available for construction and rehabilitation of housing. Participation in these submarkets is frequently affected by the condition and probable future of an area, consumer desires, purchasing capacity, and access to financing tools. For instance, a developer may decide that any activity in a depressed area would be economically unsound, that risks would be higher because of vandalism and other factors. In addition, an area's condition could, and often does, promote unfavorable attitudes by fire and hazard insurance companies, or by administrative agencies, including, until

quite recently, FHA. Low consumer incomes can kill developer interest.

Furthermore, housing producers compete with other producers, such as light and heavy industry, to borrow the funds with which to proceed. Lending institutions seek the highest rate of return on their investments, and in times when money is tight, as it is now, the housing sector feels the pinch more heavily than others. Lenders are influenced by many of the same factors that affect developer decisions.

The housing market effectively serves most of the American people. But communities like the Model Cities Area are exceptions. Whereas in most places enough forces are present to produce the desired housing, in the Model Cities Area various factors combine to prevent a supply of housing compatible with the needs and desires of the residents and the community at large. Although there is a need for owner-occupied structures to upgrade the Area, the housing system caters to rental rather than ownership because of tax benefits, economies of scale ("projects"), low consumer incomes, and increased risks. Fire and hazard insurance is regularly cancelled or reduced to insufficient levels.

As a result of such pressures in the Model Cities Area, the developers that do work in the Area fall into two categories: the large, profit-motivated developer with his own construction crews; and the small nonprofit developer. The former will not enter the area without substantial governmental assistance in the form of below market interest rates, land writedowns through urban renewal, and/or governmental assistance in processing applications for federal mortgage insurance, and in resolving related difficulties such as the cancellation of fire and hazard

insurance. Excellent illustrations of governmental assistance can be found in the Washington Park Urban Renewal Area, the Boston Urban Rehabilitation Program and Mayor White's "Infill" Program. Frequently large developers in this sort of program seek to make the bulk of their return on sheer construction of housing; therefore, they like to work with a large number of units. Note that the below market interest rate (BMIR) mortgage is not enough by itself to entice developers to enter an area. First Realty, which may have the widest experience with BMIR of any firm in the Boston area, conducts most, if not all, of its business outside areas like the Model Cities Area. It builds BMIR structures in areas where tenants are rated "good" from a management point of view, but where incomes just barely qualify for BMIR housing. Lending institutions are quite happy with the BMIR program, since they hold the loan for only one to two years at an effective interest rate of 9 percent.

Small developers and builders are <u>not</u> active in the Area; but they may be the most important group to encourage. They are scared away by the red-tape involved in processing applications for governmental assistance and by the need for scale to cover incumbent administrative and legal expenses; they have sufficient alternative investments that are much simpler to execute. Furthermore, there is no effort to encourage a group of local black developers who might be more willing to work in this area because of their familiarity with the area and probable lack of opportunity elsewhere.

The other developers in the Area are the non-profit and quasi-public entities: Foundation for Housing Innovations (FHI), St. Joseph's, and St. Mark's for example. Since they are for the most part one-shot outfits, they lack expertise in

"grantsmanship," that is, in processing federal applications speedily and efficiently. This increases their costs. These groups have not built or rehabilitated any significant amount of housing for ownership; they have produced cooperative housing. There are no condominiums in the area.

What can be done to alter this situation? In the immediate future, actions must be taken to make needed changes in governmental assistance programs, to change developer-lender attitudes, and to cultivate a new breed of developers and lenders. There is little hope for radical change in the character of the Area or in residents' income levels in the immediate future. We must design one program or several that make it worthwhile for all the necessary actors to participate in a mutual effort to fulfill the needs of the residents and the community.

To aid analysis, the best home ownership package presently available will be described and then its deficiencies and reasons for its restriction to certain types of housing will be pointed out. A $4000 income family, to afford home ownership while contributing 20% of its income to total housing costs, must turn to a rehabilitated multi-family structure. And then success depends on a particular combination of financial tools. For example, an owner would purchase a rehabilitated three-family house, for $27,000 with a 97% mortgage under section 221(d)(2) of the National Housing Act. The downpayment would be $810. The owner would then rent the two units that he is not occupying to low income persons receiving subsidies from the Boston Housing Authority (BHA). (The subsidies would be available to tenants under section 23 of the Housing Act of 1937; they are not available to families that hold legal title.) These units would

rent for approximately $165 per unit per month, and BHA would have to contribute $90/month per unit. (The maximum that BHA under its 1966 annual contributions contract with the federal government, could contribute to a 3-bedroom unit is $96 per month.) But BHA prefers to keep to an average monthly subsidy payment of $70 per unit. Therefore, even this program has difficulties. Increased interest rates and construction costs, however, will probably allow a 15-20% increase in the maximum subsidy payable by BHA. This program is not available to new three-family housing because the construction costs cause the mortgage amounts to exceed the maximums allowed by section 221(d)(2). Consequently, a family desirous of new housing must turn to other mortgage financing. But then the downpayments increase. For example, owner-occupied 3-family dwellings can be rehabilitated and refinanced under section 312 with a direct 3% loan from the federal government, but on a $27,000 house the downpayment is $2,450. Similar problems are aggravated for two-family houses; single family houses are out of reach of any person earning less than $9000 annually.

Another difficulty is that several of the available programs are limited to one- or two-family houses, as in section 221(h) of the National Housing Act. Although this section is one of the most valuable rehabilitation programs in existence because its mortgages bear a 3 percent interest rate, its usefulness in Boston's Model Cities Area is severely restricted by the predominance of three-family houses in the Area. In fact, only since this summer has this program been available for two-family housing. Section 235 of the National Housing Act, added in 1968, is also restricted to one- and two-family houses, and it has even wider problems that make it inadequate for low income families in the Northeast regardless of house size.

Its basic formula does not include heat, maintenance or utilities, and its maximum mortgage amounts are too low.

A further difficulty arises in the inadequate provision of social services pertinent to home ownership. Since most potential owners are inexperienced in the operation of a house, a time for "ripening" might be allowed. During ripening, the potential owner would be counseled in budgeting, maintenance, and other aspects of ownership prior to taking legal title to his property. The few relevant counseling services scattered throughout Boston are inadequately staffed and incapable of handling a program involving several thousand new homeowners over a five-year period.

Several conslusions can be drawn. Chief among them is that even with careful manipulation of existing programs there are serious loopholes. New housing is in trouble. The program design recommended by this report relies too heavily on BHA subsidy for an owner's tenants and advises altering BHA's role (insofar as BHA would in effect be assisting owners as well as tenants). The choice of structure is severely limited and the costs of new construction and rehabilitation result in prices that substantially exceed the market value of the completed buildings. The next section will discuss various recommendations to the MNB and MCA designed to correct this situation.

VII. RECOMMENDATIONS

Our recommendations can be divided into three major areas of concern: (1) actions designed to provide consumers demanding home ownership with the purchasing power to acquire homes;

(2) actions designed to increase the incentives for entry into the Model Cities housing market by the necessary actors, especially developers and lenders; and (3) actions aimed at giving the Model Neighborhood Board or Model Cities Agency effective control over housing produced in the Area. The first area of concern encompasses actions aimed at creating an effective demand - that is, at giving the consumers the money needed to make their wishes felt in the market place. The second area works on the supply end of the housing market; the general aim is to maximize the number of developers and bankers working in the Model Cities Area. Here, special emphasis should be given to encouraging small local developers and, thus, small business. The entry of nonprofit private and public developers is encouraged as well. In the third area of concern we assume that effective control depends upon controls over developers who produce the housing. This control, however, cannot create additional red tape that would deter the entry of developers; it must be exercised so as to simplify current arrangements.

There is, and must be, overlap and interrelationship among the recommendations. For example, if the minimum downpayment is lowered to $200, there may be no need to work for a waiver of the FHA prohibition against borrowing downpayment money although the converse is not necessarily true.

A. Creation of effective demand.

(a) Changes in federal legislation, regulations or administrative policy and procedure.

1. The program recommendations (see Chart C) depend upon subsidy assistance from the Housing Assistance Administration through the Boston Housing

Authority. The required amounts exceed the maximum amounts currently payable, which are based upon 1966 costs. They must rise to roughly $130 per month per 3-bedroom unit reflecting cost increases which have occurred since 1966.

2. FHA has an administrative policy prohibiting both second mortgages on properties that it is insuring as well as unsecured loans as means of raising downpayment money. This policy must be waived for the home ownership program in the Boston Model Cities Area.

3. Until recently FHA did not look favorably either upon mortgages on property in the Model Cities Area or upon mortgages to residents of the Area. One of the bases of this attitude has been the requirement that the mortgagor be an "acceptable credit risk" (section 203 (b)). This policy has been changed somewhat, but the credit requirement must be made more reasonable in light of efforts to upgrade the Area. Efforts should be made to utilize fully section 237 of the National Housing Act as amended by the Housing and Urban Development Act of 1968 which provides for a special high risk insurance fund in FHA. And additional funds should be sought for the provision of adequate counseling services under this section. The present restriction of this program to single family houses must be lifted also.

4. Under the 1968 Housing Act, section 312 loans and section 115 grants for

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rehabilitation can be made available outside urban renewal areas. Efforts should be made to see that the Model Cities Area qualifies for these programs.

5. At present sections 10(c) and 23 subsidies, administered by BHA, are not available to persons holding legal title to their dwelling units. This restriction could be eliminated by a change in the legislation or on an experimental basis in a demonstration program. Such a move would greatly reduce the distortion of HAA subsidy programs when used in multifamily ownership housing. It would also make single-family ownership housing available for the low income family

6. Section 235 of the National Housing Act, added in 1968, should be amended to include maintenance, heat, and utilities in the formula used to calculate payments to the mortgagee. The exclusion of these items is the primary reason for the uselessness of this section in the Northeast. In warmer climates, the formula is advantageous.

7. Demonstration programs should be instituted to test many of these recommendations, especially the two immediately preceeding.

8. All FHA sales-housing programs should be made available to one- to four-family houses. This is especially true of section 221(h) of the National Housing Act, and section 235. This change requires legislation.

9. The maximum mortgage amounts in many of the existing FHA programs, such as section 221(d)(2), are set below the costs of constructing and rehabilitating housing in inner city areas. These maximum amounts must be increased to reflect increased construction costs and rising interest rates. This would require legislative action.

10. One major impediment to a large-scale home ownership program for low income families is raising downpayment money. One solution would be to revise all FHA mortgage insurance programs so that the downpayment could be as low as $200 per mortgagor.

11. Closing costs can present problems similar to those of downpayment. Under some FHA programs, for example section 221(d)(2), it is clear that closing costs can be included in the mortgage amount insurable by FHA. Closing costs are thereby spread out over the term of the mortgage. All FHA programs should give closing costs similar treatment.

(b) State and local governmental action

1. Real estate tax levels play a crucial role in the success of the home ownership program. To insure that success, it is necessary for new and rehabilitated housing to be assessed at values which produce a real estate tax approximately equivalent to 15% of gross rentals or imputed gross rentals.

In addition, all unrehabilitated owner-

occupied houses should be reassessed to reflect the discrepancy in housing condition and value between the Model Cities Area and the rest of the city.

2. The Model Cities Area should be designated for a neighborhood development program. As a result it would gain such powers as eminent domain and writedown, which could bring the cost of housing closer to the purchasing power of the consumer resident.

3. The welfare law should be made more flexible, with special consideration for the problems of income limits on eligibility. This may require federal action.

(c) Other actions

1. The MNB or MCA should seek to create a fund to assist low income home purchasers by making loans and grants to cover downpayments. Contributions to the downpayment fund should be sought from all major money pools in the Boston area. Initial funds may come from MCA.

2. MNB or MCA should evaluate the usefulness of existing credit unions and establish new ones to provide loans to cover downpayments. This recommendation and the preceeding one require FHA to waive its prohibition against borrowing downpayments.

3. Tenant and owner cooperatives for purchasing fuel, maintenance equipment, etc. should be investigated and established wherever economically sound and feasible.

B. Actor Involvement

(a) Changes at federal level

1. One or more local offices of FHA should be opened in the Model Cities Area in addition to the one on Warren Street. Most developers, especially small ones, want to transfer their completed product to its final destination as soon as possible. This would assist smooth processing of applications and speedy transfer of ownership. These offices should be staffed by area residents whose success may depend on the successful organization of a training program.

2. The procedures for obtaining FHA home mortgage and other insurance should be simplified; section 203(b) forms are the maximum that should be required. Cost certification should be eliminated, especially under section 221(h). Section 312 loan processing, administered by the Urban Renewal Administration, could also be greatly simplified. Cutting red tape is especially important if small developers are to be enticed into the Area or encouraged to grow here.

3. Section 10(c) leasing is a far more complicated process than section 23. Whereas the latter is handled entirely by the Boston Housing Authority section 10(c) must be administered by non-local Regional Offices of the Housing Assistance Administration. Section 10(c) has one significant advantage over section 23; it is only available where local governing bodies have agreed to reduce real estate taxes to 10% of shelter rent -

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about $5 monthly per dwelling unit in Boston. For this benefit to be more accessible here, section 10(c) should be processed similarly to section 23.

(b) MNB and MCA activities to aid developers.

1. It is important that close working relation be developed with, and among, the zoning board of appeal, the building department, the tax assessor's office, the public works department and all other relevant agencies. Conversations and negotiations along this line should begin <u>at once.</u>

2. A skills bank should be organized to contact developers and provide them with information on site availability, financing arrangements, market data. It would then assist developers in making applications for various assistance programs.

3. MNB or MCA could acquire properties for rehabilitation and scattered sites for new construction. Currently, site acquisition is one of the major deterrents to developers. The power of eminent domain might be useful.

4. Home ownership training or counseling should be provided to potential homeowners. This could be done during ripening, the period of dwelling occupancy prior to acquisition of title. Or it could be done by establishing a two to three month course, successful completion of which is a prerequisite for Model Cities assistance.

5. A development fund should be established to provide seed money to nonprofit developers and local profit-oriented developers. It is necessary to pump money into a depressed area before it can achieve self-sustained growth.

6. A detailed market analysis should be conducted.

(c) MNB or MCA activities as developers.

1. Since developers are reluctant to take on long-term property management obligations in the Model Cities Area, it is important to establish a corporation for management during ripening.

2. In order to demonstrate the feasibility of developer activity in the area, MCA may have to do pioneer development that is, build homes and build them successfully before developers will enter in sufficient numbers.

3. In addition, Model Cities may have to devise a scheme to protect all parties against an unreasonably high mortgage default rate.

(d) Actions to encourage lender participation.

1. Any simplifications in processing recommended elsewhere are equally applicable here.

2. Insurance companies are unable to make the initial loans to homeowners. However they can, and may be willing to, purchase such loans (mortgages) from

other lending institutions in packages of $200, 000 or more. Efforts should be made to obtain commitments by insurance companies and pension funds to make such purchases. In effect the arrangement would be a locally run and financed secondary mortgage market.

3. Banks can be induced to lend more of their funds in the Model Cities Area by encouraging large profit and non-profit institutions to transfer their deposits to participating banks. This is known as linked financing.

4. Efforts should be made to change federal and state regulations restricting the lending institutions' efforts in the Model Cities Area. For example, regulatory agencies watch the bank's list of slow loans, loans which are in default more than a fixed number of months. A bank's ability to loan is restricted if the number of slow loans is excessive. In the Model Cities Area, there is likely to be a higher default rate. Therefore this restriction impinges more severely on that area.

C. Control over housing by the MNB or MCA.

(a) Substantial influence over necessary federal, state and local programs, subsidies, and administrative decisions would secure considerable control over the Area's housing. The key agencies would be BHA, BRA, City of Boston, Board of Zoning Appeals, FHA, and the tax assessor's office.

Major first-year activities break down into (a) direct administrative actions; (b) assigning and monitoring additional consultant contracts; (c) initiating more planning activities; and (d) hiring more planners to bring the planning staff up to full strength for this program.

A number of administrative tasks can be taken care of within six months and will immediately enhance the ownership potential of moderate and middle income families: (1) obtaining an increase in the maximum subsidy payable by BHA; (2) obtaining a waiver of the FHA prohibition against borrowing downpayment funds - or raising downpayment money in some other way; and (3) obtaining beneficial tax treatment in the form of an assessment which leads to taxes equivalent to 15% of gross rental or imputed gross rentals.

Other important steps are: (4) coordination of key governmental bodies such as BHA, FHA, Tax Assessors, Board of Zoning Appeals; (5) establishment of a skills bank; (6) location, acquisition and sale of absentee-owned property; and (7) seeking funds for a demonstration program utilizing the recommendations in this report.

If we assume that the demonstration program would be in operation in selected parts of the Model Cities Area within six months to a year, then a broad range of ownership choices could be provided for families of all income levels. Outside these subareas, some rehabilitated housing would be available for people of all income levels, but new houses would be available only for moderate and middle income residents.

If we assume that significant legislative changes covering the entire Model Cities Area would not

occur until Year Two or Three, and that the effects of stimulating and training local developers and of fostering local banks would also take time, then a full-scale home ownership program for all income ranges would not go into effect until later.

A home ownership program, as envisioned in this report, will require a staff of twelve, plus clerical assistants. A well-paid top executive is needed to run the show, and he will require an administrative assistant, two lower-echelon administrators, three planners, one architect, two lawyers, one manpower expert and a social services expert. The total budget including secretarial help will run $300, 000 in the first year. Nine recommended studies will cost approximately $190, 000. The total cost of operation will be roughly $500, 000 for the first year.

During the first year there would be a low level of activity while essential services for developers are being organized. Most developers of new housing would not enter the program until management and land acquisition services were provided and red tape reduced. Certain types of developers might enter into the program during this year. Supplier-developers, for instance, who take their profits mainly from the installation of their product, would be active, whereas other developers would enter the market only if sufficiently large, well designed projects were offered.

The temporary lack of skilled developers and problems in rehabilitating owner-occupied units and acquiring scattered absentee-owned property all will keep the volume of rehabilitation low. Land assembly, technical development assistance, developer training, and reduced red tape, conversely, would increase the effectiveness of the rehabilitation developer.

In the second year, housing activity will swell in volume as services become established. By the beginning of this year, planning and organization of the skills bank, the ownership development corporation, the development fund, etc., would be completed and operating. The new service institutions would acquire expertise.

By Year Three, the program should be in full swing. The rising level of activity, along with other public and private investments in the Model Cities Area, would be parallelled by rising land values which will, in turn, attract developers into the market.

The total volume of mortgage activity over the five-year period will be $62.4 million (FHA plus URA). Approximately two-thirds, or $40.3 million, will be handled by private lenders. Downpayments will total $4.5 million and HAA contributions will increase from $372,000 in the first year to over $5 million in Year Five.

IX. CONCLUSION

The goal of ownership housing for all residents in the Model Cities Area can be realized. Many of the tools are ready, and with force, the MCA-MNB could generate the public decisions necessary to implement the program. It is crucial to act - now. In six months, major rehabilitation can be in motion. Sites for new construction are available. An active MCA-MNB can stimulate and foster a strong home ownership program.

Home ownership is not the answer to the problems of the ghetto. Programs in job training, education, community health and recreation are essential. But home ownership is one of the answers,

a response to a community desire for local control. Model Cities families want to be their own landlords. They have the right to govern their own private lives. We can help ensure that right - which other people have enjoyed for so long.

APPENDICES

CHART A

	low interest and long term	low down-payment	high mortgage amount	Applic-able to 1 - 4 family housing	Minimum red tape	Applic-able to home-owners	REMARKS
203b			X	XX	XX	XX	FHA insurance program
220			X	XX	X	XX	FHA insurance program
221d2		X		XX	XX	XX	FHA insurance program
235	X	XX		X	?	XX	FHA direct subsidy program
221h	XX	XX	XX	X		XX	FHA direct loan program
BMIR	XX	XX	XX			X	FHA direct loan program
213		XX	XX			X	FHA cooperative insurance program
234			XX	XX		X	FHA condominium insurance program
312	X		X	XX		XX	URA direct loan program
115	n.a.	n.a.	n.a.	XX		XX	URA direct grant program
23	n.a.	n.a.	n.a.	XX	XX		HAA short term leasing
10c	n.a.	n.a.	n.a.	XX			HAA long term leasing

The Federal program is satisfactory - XX in this respect
The Federal program is partially satisfactory - X in this respect
The Federal program is unsatisfactory - in this respect
The Federal program is not applicable - n.a.

ANALYSIS OF EXISTING FEDERAL PROGRAMS

Chart A attempts to develop a qualitative analysis of existing federal programs in light of the requirements for production of ownership housing for low income families in the Model Cities Area. Various desirable aspects of federal programs (low interest rates and long terms, low downpayments, high mortgage amounts etc.) are noted across the top of the chart, while the various available federal programs are noted along the side of the chart. Where federal programs substantially satisfy the requirement noted on the top 2 x's are indicated; where it does not satisfy the program the space is left blank.

The following items should be observed on the chart.

1. Low interest, long-term loans are considered to be 3%, 40-year-type loans. Low downpayments are those not in excess of $200 per unit, and high mortgage amounts should allow between $20, 000 and $30, 000 per unit for new construction and $12, 000 per unit or more for rehabilitation.

2. The BMIR home ownership program included here refers to the new 1968 legislation, which allows single unit condominium spin-offs from projects with BMIR mortgages.

3. 235 refers to the 1% home ownership program under the 1968 legislation. This program includes neither heat, maintenance nor utilities in its computation of housing costs and consequently is of limited usefulness in the Northeast.

Additional information on all the programs shown on the chart can be obtained in Volume II of this report as well as in the FHA Digest of Insurable loans and other comparable documents from URA and HAA.

Most of the so-called one- to four-family FHA insurance programs (203b, 220, 221d2) are not designed for low income homeowners and result in high monthly housing costs and high downpayments. Nor are their mortgage amounts designed for the construction and rehabilitation costs in the Model Cities Area. They are, therefore, difficult to use particularly for new construction. 221d2 and 235 are the most notable examples here.

Most of the federal insurance programs designed for low and moderate income families, having 3% mortgages at 40-year terms with low downpayments and high mortgage amounts, are project-type mortgages; they involve cost certification and bureaucratic snarls. They are generally only partially applicable to one- to four-family housing. 221h, for example, is only applicable to one- and two-family houses, and BMIR is only applicable to one-family condominium units.

The two HAA leasing programs, sections 23 and 10c, the only two that directly subsidize principal as well as interest and thus really have the potential to reduce housing cost to the level necessary for low income people - are not applicable to homeowners. Although the cooperative and condominium programs have some advantages, they require considerable red tape to implement, and, if applied to existing three-family structures, would require the use of scattered sites. It is also questionable whether condominiums or cooperatives really provide ownership in the sense that Model Cities residents conceive of it.

Existing legislation makes it very difficult for developers to produce houses with low enough cost or low enough downpayments to allow residents of the Model Cities Area to purchase. It is even difficult for them to find federal programs under which they can construct or rehabilitate such houses, either because of the low maximum mortgage amounts or the lack of applicability to three-family structures.

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CHART B

SUMMARY OF ALTERNATIVE HOUSING PROGRAMS

		Total Costs	Program	Net Monthly Housing Costs to Owner	Annual Gross Income 25% new 20% rehab	HAA Monthly Subsidy Contribution Section 23	Monthly Subsidy Needed To Reach Modal Income Family	Monthly Economic Rent of The Rental Units	Down-payment
New	One	20,000	Conventional 203(b)	224	10800		157		950
			BMIR-BMIR	156	7500		89		2000
	Two	35,000	Conventional 203(b)-HAA	190	9100	130 for one unit	130 plus 125 = 255	210/ unit	3950
	*Three	45,000	Conventional 203(b)-HAA	135	6500	260 for two units	260 plus 68 = 328	210/ unit	4250
Rehab	One	9,000	Conventional 203(b)	134	8800		67		270
		12,000	221(h) BMIR	117	7000		50		200
	Two	18,000	Conventional 221(d)(2)-HAA	67	4000	130 for one unit		200/ unit	540
		18,000	312	67	4000	100 for one unit		170/ unit	540
		24,000	221(h)	67	4000	106 for one unit		176/ unit	200 ?**
	Three	27,000	Conventional 221(d)(2)-HAA	67	4000	189 for two units		165/ unit	810
		27,000	312	67	4000	147 for two units		145/ unit	2450

*This structure is financed by two separate mortgages; one for $35,000 on two dwelling units and one for $10,000 on the third unit. The owner resides in the two family structure.

**Unclear in 1968 legislation.

SUMMARY OF ALTERNATIVE HOUSING PROGRAMS

Chart B indicates the housing cost and downpayment amounts which can be generated by utilizing several federal programs for various types of one- to four-family new and rehabilitated housing. For each type of housing the best available federal insurance program or direct loan program was utilized and where feasible was combined with direct HAA subsidies. Thus, all rental units in multi-family structures would receive HAA subsidies. It was assumed that residents should pay more for new housing than for rehabilitated housing; 25% of gross income was used in the computation of annual income for new housing, and 20% for rehabilitated housing. For the standard, new three-family house costing $45, 000, utilization of the conventional 203b program was made possible by splitting the mortgage - that is, placing 2 of the units under one mortgage and the third unit under a separate mortgage. This was necessary because the maximum mortgage amount under 203b is $32, 500. All units were considered to be 3-bedroom units; the HAA subsidies were computed on that basis. It should be noted that in multi-family new housing it is possible to combine units of different sizes to obtain the maximum benefits from HAA subsidies without substantial increase in cost.

The general results of this attempt to utilize existing legislation are the following:

1. Under the present legislation, new housing is limited almost entirely to moderate and middle income families, and even they must purchase multi-family units to reduce their housing costs to reasonable levels.

2. It is presently possible to reduce housing costs sufficiently to make most types of rehabilitated housing available to all income levels within the Model Cities Area.

3. The downpayment requirements for new multi-family housing climb to astronomical heights - \$3,000 to \$4,000 - and in some cases, similar levels are reached for rehabilitated multi-family houses. There are few middle income people in the Model Cities Area, not to mention those of low income, who can afford this kind of downpayment.

4. The multi-family program depends heavily on HAA subsidies. They are being used to subsidize indirectly the homeowner and rents are therefore considerably higher than the market would indicate for comparable units.

To summarize: the investigation of the rather complex procedures for lowering housing costs and downpayments reveals that it <u>is</u> possible for low income people to own rehabilitated houses but <u>not</u> new housing. These procedures, therefore, do not satisfy the general goal of providing a wide range of choice within the Model Cities Area for all income groups. Since they are so complex, and require working with two federal agencies rather than one, they decrease even further the likelihood of the participation of a large number of profit-making developers, or the efficient participation of non-profits. Although the manipulated system may produce some increase in ownership housing, it is doubtful that this will result in the level of production desired; it is clear that it will not result in the breadth of choice desired.

CHART C
RECOMMENDATIONS

	PROGRAM	* PRIORITY	** TIME	WHO	STAFF	DAYS PER WK	CONSULTANT TYPE	COST		ACTION OR STUDY TIME
1.	Adjust BHS Section 23 & 10c Subsidy Maximum Limits Adjust BHA	1	1	MCA-MNB→BHA→HAA	Administrator	1				3 Months
2	Waiver of Downpayment Borrowing Restrictions by FHA	1	1	MCA MNA→FHA	Administrator	1				3 Months
3.	Beneficial Tax Treatment for New & Rehab. Ownership Housing in Model Cities Area	1	1	MCA–MNB→Assessment Dept.	Administrator	1				3 Months
4.	Qualify Model Cities Area for 312 and 115 Programs	1	1	MCA–MNB–City Council for Designation	Administrator Planner	1 1				6 Months
5.	Apply for Section 237 Special Risk Insurance Credit Commitments	1	1	MCA MNB FHA	Planner	1				6 Months
	Apply for funds for Homeowners Counseling	1	2	Organization like Fair Housing → HUD	Administrator	1				
6.	Effect liason with Zoning Board, Board of Appeals, Building Dept., BHA, FHA, BRA, etc.	1	1	MCA–MNB→Contacts Appropriate Agency	Administrator	2				Throughout Year
7.	Manpower Training for MCA-MNB Staff Personnel involved in Housing	1	1	MCA – MNB	Manpower Specialist	1				Throughout Year
8.	Hire Full time Homeownership Coordinator	1	1	MCA–MNB	Administrator	5				Throughout Year
9.	Detailed Market Analysis of Housing	1	1	MCA – MNB Subcontract	Planner to Monitor	1	Housing	25,000		6 Months
10.	Local Community Office of BRA, FHA, BHA, Banks Similar to 306 Warren	1	1	MCA – MNB Contact Agencies	Administrator	1				
	Training Program to get local people involved as local office staff	2	1	MCA – MNB Subcontracts	Planner to monitor if MCA MNB Funds used	1	Manpower Expert	10,000		3 Months
11.	Demonstration Program	1	2	MCA – MNB Applies to HUD Subcontracts	Administrator Planner	1	Housing Expert	40,000		6-12 Months
12.	Rental Market Survey similar to Homeownership Study	1	2	MCA – MNB Subcontract	Planner to Monitor	1				

* Priority of Implementation 1– First 2– Second
** Time to Implement Program 1– Several Months 2– Approximately 1 year 3– Two or More Years

In connection with each recommendation the consultants have indicated whether or not the recommendation can be accomplished (a) by the direct action of the MCA-MNB Administrators, (b) by additional detailed studies by consultants and the requirements of such consultants, (c) by additional studies by the staff of the MCA-MCB and the type of staffing required. The consultants have also indicated which recommendations are likely to be accomplished quickly and which may take from two to three years to accomplish (e.g. legislative changes), as well as indicating which recommended changes are most critical in order to achieve the general objectives of the program. A cost estimate of the operations for the first year has been developed.

	PROGRAM	* PRIORITY	: TIME	WHO	STAFF	DAYS PER WK	CONSULTANT TYPE	COST		ACTION OR STUDY TIME
13.	Homeownership Development Corporation Development Function; Management Functions	 2 1	 2 2	MCA – MNB Subcontract	Planner to Monitor	1	Major Development Company Lawyer			6 Months
14.	Homeowner Agency (Skill Bank) Technical Assistance Land Acquisition of Absentee owned units Coordinate Social Serv. Train Local Developers	1	2	MCA – MNB to develop capabilities Subcontract	Administrator & Planner to Monitor Planner Lawyer Planner Manpower	 3 1 1 1	Housing Social Services Public Administration Integrate Findings into MCA – MNB Structure	30,000		6-12 Months Throughout Year
15.	Development Fund Developer Fund Feasibility of New local Savings & Loan Bank or Savings Bank Development Fund	 2 2 1	 2 3 2	MCA – MNB	Lawyer to Monitor	1	Finance Expert	10,000		Study in Progress
16.	Initiate Action to Alter Federal & State Legislation	1	3	MCA – MNB	Lawyer Lobbyist Administrator	2 1 1				3 Months I A
17.	Change Administrative Procession of Section 10c to 23 Pattern	2	1	MCA – MNB → BHA → HAA	Administrator	1				3 Months
18.	Guaranteed Secondary Mortgage Market	2	1	MCA – MNB → Insurance Co's. & Pension Funds	Administrative	1				6 Months
19.	Increase Welfare Assistance to Homeowner	2	1	MCA – MNB → Welfare	Administrator	1				3 Months
20.	Relaxation of Lending Limitations imposed on Local Banks	2	2	MCA – MNB → Federal Home Loan Bank, State Com. of Banking	Administrator Lawyer	1 1				6 Months
21.	Qualify Model Cities Area a neighborhood Development Program	1	2	MCA – MNB – BRA or [MCA – MNB granted some LPA powers]	Planner	2				12 Months
22.	Default Protection & Insurance Package	2	2	MCA – MNB Subcontract	Planner to Monitor	1	Insurance – Housing Team	10,000		6 Months
23.	Purchasing Cooperative and/or Homeowner Credit Union	2	2	MCA – MNB contacts Local Group (i.e. APAC's)	Planner	1				6 Months
24.	Evaluation of Local Property Tax policies and Effect upon Model Cities Area	2	2	MCA – MNB Subcontract	Lawyer	1	Local Tax Expert	10,000		Throughout Year
25.	Transfer of Appropriate Controls to Local level (i.e. Code enforcement, Housing Court)	2	3	MCA – MNB Subcontract	Administrator Lawyer	1 1	Public Administration Expert (local & Federal) Lawyer Team	25,000		Throughout Year
26.	Conversion of Public Housing Housing to Homeownership	2	1	MCA – MNB Subcontract	Planner	1	Housing	10,000		3 Months

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